

Submitted on February 14th, 2022 on behalf of the Board & Staff of [San Francisco Community Land Trust](#) by President Keith Hennessy, Secretary Hope Williams, Board Member Vivian Schwab, Board Member Dalia Rubiano Yedidia, Board Member Jeanne Marie Hallacy. Contact Information: President Keith Hennessy, keithhennessy@gmail.com, 415-846-2273

Permanently Affordable Cooperative Homeownership: Scaling CLT & LEHC Partnerships

Summary Description of Program

Community Land Trusts (CLTs) and Limited Equity Housing Cooperatives (LEHCs) are two important underfunded and innovative social housing strategies for creating democratically governed permanently affordable homeownership in San Francisco. CLTs and LEHCs are democratic because they both emphasize resident and community member participation in decision-making. CLTs are incorporated as 501(c)(3) organizations with a board made up of 1/3 residents, 1/3 community members, and 1/3 public members. LEHCs are similarly incorporated entities with a board of directors made up of resident members. Research shows that an LEHC that partners with a CLT is far more sustainable than one that does not since CLTs provide critical legal, technical, and financial support to the LEHC. Furthermore, the CLT and LEHC together ensure greater permanent affordability as both are regulated by California law, thus ensuring resale restraints remain in place via two different legal mechanisms. This proposal attempts to foreground the importance and benefits of this partnership, the need in San Francisco to scale these two models, and the investment needed by the city to do so.

The Central Goals of Scaling CLT & LEHC Partnerships

- Scaling the # units of permanently affordable home ownership removed from the speculative market benefiting those of low and moderate income (below 120% AMI) and thus giving people an ownership stake which they can pass on to their children.
- LEHCs which are ensured greater success in the form of financial stability and the physical integrity of the buildings over the long-term by CLT oversight
- Providing multiple layers of democratic governance which empowers residents at the level of the LHC and the CLT board to participate in important decision-making internal to the CLT/LEHC, as well as, more broadly in local community development.
- Housing which is truly permanently affordable is ensured by multiple layers of resale restraints guaranteed by both the CLT and LEHC legal structure. The LEHC without CLT oversight has greater potential for avoiding CA regulation and eventually selling at market-rate.

How CLTs and LEHCs create, support, and expand the development of social housing

CLTs & LEHCs are important forms of social housing because they both democratize and decommodify housing.

CLTs are democratic because they function as non-profits with a board structure which requires the participation of 2/3rd residents and community members. They also act to decommodify housing because they remove land from the speculative market using resale restraints effectuated by the split in ownership of land and housing or “ground lease model.” In this model the title of the land is owned by the land trust, while the title over the building belongs to a homeowner or group of homeowners. Therefore, the land trust and homeowners are joint owners, and the homeowner is prevented from selling the home on the market but instead according to resale formulas which track a social index (Consumer Price Index or Area Median Income) thereby remaining affordable to future buyers in perpetuity.

In an LEHC a “tenant-owner” owns shares in the cooperative corporation, like owning shares in a corporation, except in the case of the LEHC the shares represent the entitlement to occupy a particular unit in a multi-unit building. Shares according to California Code 817 cannot be set above 10% of the development cost of a unit, however in practice, they are set far below that value (often \$10,000) to make them affordable to those of low and moderate income, which in effect becomes a form of return closer to keeping it in a savings account or a little more like a CDI. In other words, the return is low but the risk is also low.

To illustrate, let’s say a “tenant-owner” bought their share at \$10,000. This share entitles them to live in the home, pass it on to their successors, and to transfer the share at the initial value + the appreciation according to resale formula + any permissible improvements they made on the property.

LEHCs are ideal for democratizing and decommodifying housing in multi-unit buildings. LEHCs are democratic because they are governed by boards made up entirely of resident members, and they similarly serve to decommodify housing because the law governing LEHCs in California prevents its members from making a profit on the resale of their homes outside of those prescribed by resale restraints, however LEHCs without CLT oversight have been known to fail due to adequate technical, legal and financial support to support their maintenance, and even have been known to skirt CA regulation since there is very little state oversight over LEHCs, and in some cases, eventually selling units at market-rate. Therefore, the CLT and LEHC partnership has been found by established research in the field to be the best way to both ensure resale restraints, while providing the LEHC with the support it needs to flourish.

In San Francisco there is only one CLT, San Francisco Community Land Trust, with a mere 151 units of housing and ten LEHCs with around 1,500 units of housing mostly concentrated in the Western Addition/Fillmore, Bay View/Hunter's Point and Diamond Heights. Amongst these ten LEHCs, only one - Columbus United Cooperative (CUC) - represents an LEHC-CLT partnership, and as a result is a far more successful example of an LEHC than the others. The land beneath the structure of CUC, a 21 unit building in Chinatown, is owned by SFCLT using the 99-year ground lease model. SFCLT has provided critical technical assistance to CUC over the years, and to date it is the most successful LEHC in the City, achieving financial stability just after three years. SFCLT also used to provide support to the independent LEHCs, however due to declining funding available for these activities from MOHCD, SFCLT is no longer able to provide the support that these independent co-ops need. Many of these LEHCs, particularly the larger ones like King Garvey and Freedom West, suffer from several problems, many of which stem from the history of public divestment from these projects after initial robust federal funding was depleted and the city failed to identify new forms of local, regional, and statewide support.

To better support existing independent LEHCs and incubate new LEHCs on CLT land like CUC, SFCLT requires both financial assistance from the city to scale LEHC & CLT partnerships, as well as, to transform the current legal/policy treatment of LEHCs (see below in accomplishing goals of the program).

How this program advances racial and social equity, as well as geographic equity

SFCLT advances racial equity because it serves a majority BIPOC community (70% identify as BIPOC) and is led by a majority BIPOC board (55%) made up of residents of regular people from the San Francisco community. Furthermore, SFCLT advances racial equity in its acquisition strategy by identifying and prioritizing properties for acquisition and conversion into homeownership with majority BIPOC communities.

SFCLT advances social and economic equity because 73% of our residents are below 80% AMI and 50% below 60% AMI.

SFCLT advances geographic equity because it is the only city-wide developer of small sites in San Francisco with properties throughout the city. SFCLT currently owns and operates 14 permanently affordable properties in Chinatown, the Mission, the Tenderloin, the Richmond district, South of Market, and soon Russian Hill.

Lastly, any LEHC conversion project by SFCLT would take into account racial, social, and geographic equity. For example, our latest LEHC conversion project, 285 Turk in

the Tenderloin was selected primarily for this reason. The residents of 285 Turk are majority BIPOC (Filipino and Latinx).

How the goals of the program or project can be accomplished or advanced and by what types of agencies or entities within Fiscal Year 2022-23

As stated above, in San Francisco there is only one CLT, San Francisco Community Land Trust (SFCLT), with a mere 151 units of housing. While SFCLT operates city-wide, and is the second largest developer of small sites (under 25 units) affordable housing developments in the city, it still requires additional capacity funding to scale to adequate levels to preserve additional units of permanently affordable housing (see SFCLT specific funding amount of \$600,000 in the first year and \$350,000 thereafter). In addition to funding the capacity of SFCLT, LEHCs have their own project budget, which incorporates a .5 FTE Resident and Outreach Coordinator dedicated to providing support to the LEHC board and residents until they reach financial stability and self-management. This is a model which SFCLT pioneered at CUC, and to this day, the CUC board and residents have decided to continue to maintain a .5 FTE REOC role for continued support to the co-op.

SFCLT is currently replicating this model at 285 Turk as mentioned above, and currently raising the initial funds for year 1 to potentially year 3 or 5 (depending on how quickly the building can be converted) for the REOC so that it is built into the project budget. We expect the capacity needed for LEHC conversion and support to be around \$50,000 per year. These needs are relevant for the 2022-2023 fiscal year.

In addition to the REOC role, the sooner we can assist residents at 285 Turk to raise their equity stake towards purchase of their share the sooner we can convert the building into an LEHC. This means providing residents with financial empowerment tools, as well as first time homeowner's programs which are applicable for cooperatives like the "Real Ownership for Tenants" project or ROOTS which provided \$1,000,000 to tenants below 80% AMI to purchase homes, including shares in an LEHC owned by a CLT. In fact, this program was utilized to raise \$200,000 in share values to allow each of the 21 residents at CUC a \$10,000 share. Programs like ROOTS should be revived to allow tenants to purchase shares in an LEHC.

Finally, technical assistance funding for \$75,000-\$100,000 per year should be provided by the city to provide homeowner's education programs. This amount could cover the cost of a .5 REOC's at two of our properties slated for LEHC conversion. Furthermore, additional TA funds should be made available to investigate how/if the 9 independent LEHCs in San Francisco can come under CLT ownership.